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Yugoslavia: New Strains or More of the Same?

Yugoslavia may be entering a period of greater than normal strains throughout society. While each problem individually is likely to be manageable, the convergence of so many could be more than the system can handle. Although chances of a system-wrenching crisis today appear fairly small, they seem to be growing. Yugoslavia's many checks and balances will not necessarily always prevail and ensure stability, especially as economic and ethnic troubles grow. [redacted]

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Yugoslavia's economic problems are major and unlikely to be resolved for years. Export prospects are poor and the country is likely to face a financing gap of at least \$1 billion annually well into the 1990s. Western bankers are haggling with Belgrade over rescheduling terms and are unlikely to volunteer new money; the Yugoslavs have not been candid with the IMF about their problems and resist conditionality; and the prospect of new money from Paris Club creditors facing their own budget constraints is not good. Domestically, inflation is surging, real incomes are falling, and regional economic disparities are increasing. The populace seems to recognize that the prospects for better living are poor. While the realization has not led to major outbursts, recriminations, or nationwide labor actions, yet more austerity could provoke reactions by wage earners and other consumers. [redacted]

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Nationalism is growing. Serbs, in particular, are increasingly chauvinistic, especially in Kosovo. Other nationalities are asserting themselves and are concerned about the Serbs. Tensions between Serbs and Albanians in Kosovo are high, and the prospects for riots are greater than at any time since the 1981 riots; the federal presidency, according to a 25 October press release, has moved federal police into Kosovo to reinforce local security forces. There also appears to be somewhat stronger talk than usual in Croatia and Slovenia that the federation should be dissolved so that the more prosperous northern republics can be rid of the burden of supporting less affluent parts of the country. We are unsure about whether these developments reflect stronger centrifugal forces or are but periodic upsurges in emotion that might soon subside. [redacted]

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The federal government seems unusually incapable of taking remedial action. Mikulic has been weakened by his handling of the economy and could resign under pressure. The army seems unwilling, as yet, to inject itself actively in the political process; soldiers undoubtedly are unhappy, however, about declining real wages and the harassment they have received in Kosovo.

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Moscow could move to exploit the situation, particularly in the economic arena. The Soviets are Belgrade's largest trading partners and the Yugoslavs recently have run large hard currency surpluses with them that help meet debt service needs and stave off financial crisis. Moreover, some industries are highly dependent on the Soviet market. However, with oil prices down in 1986-87, the Soviets have somewhat reduced their purchases, hurting firms whose goods are not saleable for hard currency elsewhere. Should the USSR reverse course and increase imports--and thereby Yugoslavia's hard currency receipts--for political reasons, Moscow might be able to generate either good will or political IOUs to be cashed later. Naval access to Adriatic ports is but one of many possibilities. Although Moscow's resources are limited, Gorbachev and company might decide that spending them in Yugoslavia is a good long-term investment.

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Western ability, like Moscow's, to influence domestic affairs is also concentrated in the economic sphere. The IMF can be convinced by its larger members to change lending policies, and more bilateral government credits can be granted. Private banks might also be jaw-boned. Additional research to find niches in which Yugoslav industry can compete in the West might pay handsome dividends over the medium- to long-term. All of these actions probably would be more effective if taken well before a major crisis. The key to an economic recovery is domestic reform, however, an area the Yugoslavs have been loathe to cede to foreign control or significant influence.

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